

29. It is possible that a military agreement guaranteeing the demilitarization of Japan, and providing military support for any inspectorate which might be located in Japan might be reached without great difficulty by the powers principally concerned if it were drawn in very general terms and if it did not specify the number or type of military forces to be made available or their location. If these latter questions are considered in any detail by the United States and the U.S.S.R. the overriding consideration may become, not the demilitarization of Japan, but the securing of strategic advantages in the Pacific area. The possibility must be considered therefore that the negotiation of a detailed military agreement to guarantee the demilitarization of Japan might increase the difficulties of attaining conditions of stability in that area.

30. In the light of these considerations mentioned, your recommendations on each of the questions raised in paragraph 26 above, together with your views on the extent to which Canada might appropriately participate in a system of inspection and in any military agreements to guarantee the demilitarization of Japan, would be appreciated.

31. Economic Control of Japan

Possible economic controls of Japan which may be established can be considered in three aspects: (1) Restrictions or prohibitions on the manufacture and production of certain specific items, to be written into the peace treaty and made subject to periodic revisions; (2) A system of checks and controls on certain key imports, such as iron ore, aluminum ingots and crude oil, to be administered by an international agency representing the principal exporters to Japan; (3) Agreements between the Allied powers for the application of punitive sanctions whenever certain infringements to the terms of the peace treaty take place.

32. The types of restrictions envisaged under (1) in paragraph above might include, among other things, bans on the manufacture of all war materials, all aircraft, explosives, fissionable materials, aluminum, synthetic oil, and synthetic rubber. In addition, the terms of the peace treaty might require reductions in production capacity of industries such as iron and steel, oil refining and storage, merchant ships and ship-building facilities, and production ceilings for these industries which would also be subject to periodic revision.

33. The formulation of policy on the subject of economic controls is principally an economic matter. You may wish, however, to make some recommendations with regard to the definition of war materials, the mode of operation of civil air lines and the appropriate levels for Japanese merchant ship owning, ship-building and ship repair facilities. The principal question with respect to civil aviation is the extent to which the Japanese should be permitted to own and operate domestic and/or overseas air-line companies. Japanese participation in civil aviation involves the question of whether or not they should be permitted to import certain types of aircraft and train their own air crews and service personnel.

34. Both New Zealand and the United Kingdom are of the opinion that Japan should not be permitted to own aircraft,